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EFFECTS OF FINANCING ON GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA: A STUDY OF KADUNA METROPOLIS

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Abstract
This study investigates the effect of finance on the growth of small and medium-scale enterprises in Kaduna Metropolis, Nigeria. SMEs are very important to the economy in terms of economic growth and employment generation; however, they suffer greatly due to a lack of access to finance. The study adopts a descriptive design intended to ascertain the relationship between access to finance and some business performance indicators like profitability and sales growth through a survey of 120 SMEs across different sectors. Descriptive and inferential analyses show that bank loans, microfinance, and personal savings are the facilitators of SME growth, with bank loans being the most significant of these. However, it was observed that high interest rates and stringent collateral requirements, along with complicated procedures in securing a loan, were major impediments. It is suggested that policy efforts be targeted at increasing access to finance, reducing interest rates, and simplifying procedures in loan applications. Recommendations include the introduction of credit guarantee schemes and increased financial literacy programs for SME owners to optimize their contributions to economic development.

Keywords: Effects, Financing, growth, small, medium

Background of the Study

Finance is the very lifeblood of any economy, developed or otherwise. Human resources may be necessary for jump-starting economic activity, but finance plays a quintessential supporting role in the process, serving as the fuel that drives commercial enterprises. Normally referred to as capital or credit, finance is as vital to business activities as blood is to the human body. The survival and growth of SMEs largely depend on their access to financing. Emerging evidence suggests that SMEs are a significant factor in promoting economic development mainly because of their role in employment creation and their relatively low investment requirements (Smith et al., 2021). SMEs form an integral part of the global economy and constitute major catalysts of growth. Their importance is progressively realized by the governments around the world, which actively provide support for their development, since SMEs contribute massively to national economies (Zhang & Lee, 2022).

Established economies like the United States and the United Kingdom trace major developments to the growth and expansion of their SME sector (Taylor & Wilson, 2020).

Kaduna State, which is apparently a leading industrial center and a cosmopolitan city in Nigeria, has had substantial entrepreneurial activities that have been recognized by both public and private organizations as being quintessential to the economic growth of the region (Ali & Kazeem, 2023). Even though SMEs are very important to national development, entrepreneurs in Kaduna Metropolis still face a lot of challenges in terms of access to finance. Most SMEs lack access to financial resources to expand their operational capacities and improve production technologies to hold a competitive position in the market (Ojo et al., 2023). In light of such challenges, this study conducts an assessment of the financing impact on SMEs in the Kaduna Metropolis. Precisely, it explores how financing is relevant to SMEs regarding profit maximization and the increase in sales in that region.

Statement of the Problem

The demand for finance for businesses has become increasingly burdensome on governments as a result of the multiplying responsibilities of governments in contemporary society. El Hadidi (2022) explained that, in consequence, governments are constrained in their capacity to be the drivers of economic growth by the myriad of obligations they are expected to meet in contemporary times. Muogbo and Tomola (2021) emphasized that financial institutions grant access to capital, which is crucial in catalyzing economic growth, especially in the case of SMEs. In the case of Nigeria, Fasua (2017) identified its perennial problems: poor governance, corruption, poor state of infrastructure, insecurity, and an unstable macroeconomic environment. These circumstances further underscore the fact that governments cannot be relied upon solely to drive the economies of developing countries; hence, a partnership between the public and private sectors must be actualized as part of inducing solutions to the problems associated with poverty, unemployment, and low standards of living. El Hadidi (2022) alluded to this awareness and the consequent privatization policies adopted by governments to encourage active private sector participation in national development.

The issue is that, despite SMEs' vital role in economic growth, an unappealing trend sets in concerning the high mortality rate of such businesses, especially within

Kaduna State. According to the SMEDAN report of 2021, only 10% of new businesses started in Nigeria survive the first five years, and if they survive, their performance thereafter is always very poor. This explains the fact that the critical role of finance plays in the survival and growth of SMEs. Recently, microfinance institutions have become one of the main sources of SME financing in Nigeria. Since then, understanding the role of microfinance in encouraging entrepreneurial growth has become imperative. Nevertheless, the previous empirical research regarding the impact of microfinance on entrepreneurial development has so far provided mixed and sometimes conflicting results. A few examples, such as Electrin et al. (2016); Kiiru & Kenia, (2015); Boadu (2014), have supported the evidence for the role of microfinance in poverty reduction. Other examples, such as Akingunola et al. (2015), focus on microcredit as a source of promoting entrepreneurship. Other studies examine microfinance institutions as agents of entrepreneurial growth. Some such studies include those by Ozioko (2018), Alalade (2019), and Ojo (2017). Also, none of the studies were conducted in Kaduna Metropolis; hence, this could also be viewed as added value to the identification of those challenges and opportunities particular to the region.

Aim and Objective of the Study

The major aim of the Study is to assess the effect of financing on the growth of small and medium-scale enterprises in the Kaduna metropolis. Other specific objectives are to:

i. To examine the relationship between financing and the growth of small and medium-scale enterprises (SMEs) in Kaduna Metropolis, focusing on indicators such as profitability and sales growth.
ii. To identify the sources of financing commonly utilized by SMEs in Kaduna Metropolis and evaluate their impact on business performance.
iii. To assess the challenges faced by SMEs in accessing financial resources, including high-interest rates, collateral requirements, and complex loan application processes.
iv. To determine the role of bank loans, microfinance institutions, and personal savings in driving the growth of SMEs in Kaduna Metropolis

Literature Review

This section reviews and presents relevant literature on the effect of financing on the growth of small and medium-scale enterprises in Nigeria. It discusses the concept of the Entrepreneur, an Overview of the importance of SMEs and the main sources of financing SMEs in Nigeria, and SME financing as a development strategy also reviewed. The review of related empirical studies is explored as well as the theoretical framework upon which this study is framed. This is done to identify the gap in the literature and to justify the need for the present study.

Concept of Entrepreneur

The entrepreneur is able to identify suppliers and customers and act as an intermediary where the profit arises out of the intermediary function (Deakins & Freel, 2006). Zimmerer and Scarborough (2005) hold that entrepreneurs are new businesses or combinations that arise in the face of risk and uncertainty to achieve profit and growth. "Entrepreneurship is defined as an activity that involves the discovery, evaluation, and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that previously had not existed" (Shane & Venkataraman, 2000).

Overview of the importance of SME

SMEs are the lubricants essential to oiling and developing any economy. SMEs are the major contributors to economic growth in the OECD area, providing the source for most new jobs. Over 95% of OECD enterprises are SMEs, accounting for 60%-70% of employment in most countries (OECD, 2005). With larger firms downsizing and outsourcing more functions, the weight of SMEs in the economy is growing. Besides, productivity growth and hence economic growth is strongly influenced by the competition inherent in the birth and death, entry and exit of smaller firms. The process involves high job turnover rates and churning in labor markets, which is an important part of the competitive process and structural change. Less than one-half of small start-ups survive for more than five years, and only a fraction develop into the core group of high-performance firms, which drive industrial innovation and performance.

This underlines the need for governments to reform policies and framework conditions that have an impact on firm creation and expansion, aiming at maximizing the contributions that such firms can make to growth. In Nigeria, the contribution of SMEs has been recognized as the mainstay of the economy because of their potential in improving economic output and human welfare. The problems facing the SMEs in Nigeria are multidimensional. Ekpenyong (1997) and Utomi (1997) identified inadequate capital and inaccessible credit facilities. Long-term development institutional credit was known not to be available to SMEs because they are generally regarded as high credit risks by financial institutions. The study by Evbuomwan, et al. (2012) revealed that 75.7% of their survey respondents relied mostly on their funds to finance their businesses. However, the inability of SMEs to access rather affordable and efficient sources of finance has been recognized as the major reason that hinders the contribution of SMEs to economic growth. This raises a major concern that the banking system in the sub-sector, which is supposed to be the major financier of SMEs, is not giving enough support to new economic initiatives and, in particular, to the expansion of SMEs and the agriculture sector. It is observed that commercial and the hitherto merchant banks, which retained liquidity levels above regulation, have shown reluctance in financing SMEs (Sacerdoti, 2005). While Micro Finance Institutions (MFIs) have expanded vigorously in several countries, the size of their credit remains limited, so their support is not on the scale needed for many medium-sized projects. Also, the interest rate on micro-credits is very high due to large administrative costs concerning their scale of operations (Mahmoud, 2005). The primary focus of this study emanates from the fact that small-scale enterprise owners do not have sufficient finance to carry on their businesses. The reason for this is not farfetched; low level of income. It is a fact that SMEs face financial challenges. Different studies have identified financial constraints as the major hindrance to SME development in developing countries including Nigeria. First, Adelaja (2003) argues that inability to access institutional finance has always been a pandemic problem to SME development in Nigeria.

The issue of SME financing has equally attracted overwhelming research interest from researchers. In the course of their findings, four problems in financing SMEs have been recurring: the cost of capital; risk; the inappropriate terms on bank loans; and the shortage of equity capital. Over the years, the government has enacted various policies and introduced schemes aimed at financing SMEs. However, it remains a source of worry to note that SMEs to this date are starved of funds and the problems hitherto identified in SME financing keep reappearing. Asaolu et al (2005) have adduced that financial constraints limit the developmental role of SMEs. But this may not be the case, especially for Nigeria where the informal sector, which is constituted largely by SMEs, plays a very important role in the development of the nation's economy. There is a serious doubt as to the success of SMEs in economic growth as regards accessibility to its funds.

Main Sources of Financing SMEs in Nigeria

The importance of finance to a business organization cannot be over-emphasized. Business finance is, however not easy to come by especially in respect of SMEs. Yet they require funds from every source available to them to meet their asset needs, working capital needs, and expansion. According to Ekpenyong and Nyong (1992), there is wide consensus in Nigeria that government policies are skewed in favor of the formal sector to the detriment of the informal sector. This skewness is to the great disadvantage of SMEs in Nigeria since they are more disposed to the funds of the informal sector.

Formal Sources of Financing SMEs

Formal sources of financing include commercial banks, merchant banks and development banks.

Despite the liquidity-rich financial system in Nigeria, banks have continued to show reluctance in lending to SMEs, seen largely as high-risk borrowers. Many banks prefer to pay penalties for non-attainment of credit targets for more preferred sectors than risk exposure to the SME sector. Ojo, 2021, lamented that the primary sources of investment finance for SMEs came from personal savings, while government institutions, local authorities, cooperatives societies, relatives and friends trailed. This position was further supported by the Nigerian Institute for Social and Economic Research, NISER 2021 where about 73% relied on personal savings while just a little above 2 percent accessed finances from formal financial institutions. SMEs have a crucial role in influencing the process of economic development. According to Aruwa (2022), banks act as intermediaries by aggregating resources from surplus units to deficit units, facilitating investment, innovation, and growth in general. The banking industry dominates the financial system of Nigeria, according to Agusto (2021). Berger et al. (2001) have noted that a well-functioning financial system is important for the facilitation of investment and subsequent economic growth. When SMEs are in their formative stages, they usually must borrow capital to finance the investments. In theory, investment projects are taken where the net present value of the projects is positive when the capital is available Mainoma, 2005. Large-scale investments beyond current capacity require established enterprises also to finance.

A lack of access to capital turns into a very important limiting factor for it hinders growth and is an obstacle in trying to solve all the other challenges. To avoid flight of capital from the real sector to banks, Njoku (2007) had opined that "a significant part of available credit must be channeled into long-term loans at lower interest rate, single digit ideally not more than 5%, for the purpose of industrial development.". This approach would support industrialists in sustaining their businesses and achieving their expansion goals. SMEs dominate Nigeria's private sector but remain chronically underfunded (Mambula, 2022).

The persistent lack of financing for SME development, exacerbated by commercial banks' reluctance to offer long-term loans, led to the establishment of development finance institutions and several funding programs aimed at supporting SMEs. Notwithstanding these attempts, there has remained pervasive discontent with the availability of finance for SMEs. For example, the Central Bank of Nigeria- CBN, 2020- notes that loans granted by commercial and merchant banks to SMEs have over the years persistently declined. For example, the proportion of SMEs loans by commercial banks as a percentage of credit to the total economy had fallen from 48.8% in 1992 to 22.22% in 1994. This trend drifted upwards marginally in following years but had fallen to merely 0.2% in 2008. In the similar vein, loans to SMEs by merchant banks dropped from 31.2% in 1992 to 9.0% in 2000. Akabueze, (2020). SME lending has continued to decline mainly due to inadequate collateral presented by SMEs and the high interest rates charged by banks. The access to credit is, therefore, increasingly becoming a nightmare for SMEs

The Small and Medium Industries Equity Investment Scheme (SMIEIS) Fund

In Nigeria, the formal financial institutions have been organized in financing SMEs through venture capital financing in the form of a SMIEIS fund. This was in response to the desire of the Federal government to promote SMEs as vehicles for rapid industrialization, sustainable economic development, poverty alleviation, and employment generation. Venture capital financing supplements or takes the place of credit facilities that conventional banks are unwilling to give. The provider of the funds may initially part with the funds as a loan, but specifically with the idea of converting the debt capital into equity at some future period in the enterprise. The return from such investment should be high to compensate for the high risk.

Venture capital may be regarded as an equity investment where investors expect significant capital gains in return for accepting the risk that they may lose all their equity (Golis, 1998). The Nigerian government's version of venture capital financing of SMEs -SMIEIS, requires all licensed banks in Nigeria to set aside 10% of their pre-tax profit for equity investment and the promotion of small and medium-scale enterprises. This is targeted at curtailing the interest rate and other charges of financial services placed under ordinary bank credits. The reason for an inability of SMEs in making available the said funds for their need is also from conditions beyond most predominant SMEs Aruwa, (2004).

Drawing from Sanusi 2004, a breakdown of investment in the SMIEIS fund by sectoral distribution indicates that the real sector accounted for 68.82% of total credits given, while service-related investments took up 31.18%. This, he notes, represents a sharp reversal of the initial trend recorded under the scheme. The Bankers Committee has apportioned the investment of banks relating to the fund as 60%, 30%, and 10% of their fund in core/real sector, service-related, and micro-enterprises respectively. Geographically, Sanusi (2004) analyzed that the SMIEIS fund has been gulped 56.63% by Lagos-based investments, while Abuja and 18 states received a balance of 43.47%. This is with relation to the model of growth of SMEs and the avenues available for financing. According to, Golis, (1998), the venture capitalist does not look for enterprise either at their start-up and survival stage but only in stability and rapid growth stages that the venture capitalists appear. The method of financing still remains one of the most important Critical Success Factors of SME's. An eligible beneficiary shall be qualified for equity funding under the scheme if: It is incorporated as a limited liability company with the Corporate Affairs Commission and is properly operationalized under relevant sections of the Companies and Allied Matters Act (1990), including filing of annual returns, which are expected to be accompanied by audited financial statements; ii). Pay all applicable taxes and duties and make returns regularly to the relevant authorities Bankers Committee Revised, 2005). Aruwa, (2005) laments that given the developmental stage of Nigeria's dominant SMEs; it is difficult for them to meet any of these requirements. As such, SMEs in Nigeria cannot access funds from SMIEIS.

Funds from Specialized Financial Institutions

It is pertinent to recognize government efforts at improving the capital base of SMEs through the creation of specialized and developed institutions and specific directives of these and other formal financial institutions, as well as the Central

Bank of Nigeria (CBN), targeted towards increased lending to indigenous (SMEs) borrowers. Other efforts are the non-governmental organizations (NGOs) finance supply targeted at the informal sector, especially the SME sector. The recent government efforts at meeting the needs of the sector include the following:
The reconstruction of the former NIDB in the year 2001 to the Bank of Industry (BOI) and the merger of the Nigerian Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND) with the newly created Bank of Industry.
As part of government efforts at addressing the financing needs of micro-entrepreneurs, a micro-finance policy was launched by the Federal Government in December 2005.

Other sources of SMEs Financing

One of the major sources of funds/financing available to SMEs is personal savings and informal loans from friends and lenders. The government of Nigeria coupled with the assistance of the World Bank and the African Development Bank has tried in the past to assist SMEs through their various loans and credit schemes designed to finance SMEs; some of which are: the World Bank SME loan scheme, African Development Bank Export Stimulation Loan (ADB/ESL) scheme; CBN Re-discounting and Re-financing Facility (RRF); National Economic Reconstruction Fund (NERFUND), Bank of Industry (BOI) and the Graduate Employment Loan Scheme (GELS) initiated by the National Directorate of Employment (NDE). Lately, the Federal Government of Nigeria (FGN) introduced Small and Medium Industries Equity Investment Scheme (SMIES) for or to the Banker's Committee requiring all licensed banks in the country to set aside 10% of their Profit Before tax (PBT) for equity investment in the promotion of SMEs. More so, according to Owualah (15) itemize others seven major sources of funding which are available to SMEs.

a. Personal resources.

b. Family and friends.

c. Partners or business associates.

d. Informal financial markets comprise, individuals and groups, including pool fund groups and cooperative societies.

e. Kaduna start-up entrepreneurship program scheme (KADSTEP)

f. Specialized financial institutions such as the Nigerian Bank for Commerce and Industry, (NBCI), Nigerian Industrial Development Bank (NIDB), and the Nigerian Agricultural and Cooperative Bank (NACB).

SMEs Financing as a Development Strategy

Governments in both the industrialized and developing countries have programs of varied scope to support SMEs. While several of the developing countries emulate such SME strategies with the successful examples like Taiwan, Italy, and Ireland; still, in the majority, the impact of these SME development programs has turned out to be unsatisfactory in their implementation in most developing nations. Stiglitz, (1993) stated that the role of the government in the development of financial markets is one of the most longstanding and unresolved debates that economists around the world have engaged themselves in. Nevertheless, until recently very few have discussed the role of the government in SMEs development and issues relating to financial services for smaller companies. The factors that determine the rationale for intervention mainly include a level of macroeconomic stability; the stage of development of the banking system; the level of basic infrastructure facilities, the stage of development of the Micro Finance Industry; the size of the potential SMEs, conflict situations such as wars and natural disasters; geographical diversity of the country; and population density Ojiakor, (2007). This section tries to discuss the role of government and the need for their intervention in the development of sustainable financial services to reach the majority of the poor and their micro and small enterprises. Various schools of thought on the role of the government which are either Laissez-faire school, Interventionist school, or Moderate interventionist school recognize different levels of government interventions on the development of SMEs. However, the best form of government involvement is dependent upon a set of country conditions and levels of financial development. Inadequate infrastructure in rural areas impedes access to markets and technologies.

The road network is in disrepair, and there is inadequate provision of power, water, and communications in the urban areas of the country and absolutely lacking in the rural areas. All these factors tend to increase the costs of doing business or result in low-quality, uncompetitive products, and by extension hinder SME development in Nigeria. The government has not provided a regulatory framework and legislation that would allow MFIs to promote financial intervention for SMEs.

Challenges to SMEs Financing Strategy in Nigeria

SMEs have been fully recognized as the main engine of economic growth and a major factor in promoting private sector development and partnership. Some of the financing challenges they encounter include:

i. Accessibility to sustainable funds has perennially constituted a hindrance to adequate funding of Small and Medium Enterprises (SMEs), leading to the premature collapse of these industries.
ii. The majority of the SMEs do not keep records for fear of tax obligations. The prevailing corrupt tendency in Nigeria, which has permeated the fabric of the society including Nigeria entrepreneurs, has prevented most small

and medium enterprises operators from keeping adequate records. This makes it difficult to translate the general policy framework into efficient and sustainable intervention programs for the benefit of the SMEs in the country.

iii. Most SMEs operators prefer to get the funds as a loan rather than an equity contribution. They are averse to going into partnership schemes with banks under the SMIEIS program, thus, setting back most SMEs in the country.

iv. A good number of SMEs in Nigeria are not aware of the existence of the different sources of funds for SME development; the incentives available for them, as well as how to source funds from banks.

v. The poor governance structure is another factor preventing small and medium enterprises from accessing funds easily from banks and other specialized financial institutions.

Theoretical Framework

The study anchored significantly on the pecking order theory. The pecking Order Theory of financing says that firms and individuals will use personal funds before acquiring external debt and equity. It is a framework for examining firm financing that states that firms attempt to reduce information asymmetries and maintain ownership by first using internal financing, followed by external debt and equity (Myers, 1984; Berger & Udell, 2003).

Empirical Review

Access to finance is seen as a necessary condition for SMEs' success in their drive to build productive capacity, compete, and contribute to poverty alleviation in developing countries. The findings of Amoako-Adu and Eshun (2018) and Idowu (2010) revealed a positive relationship between business collateral and the profitability of small and medium-scale enterprises. These findings indicated that without finance, SMEs can neither absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms.

Furthermore, Rahman, Belas, Kliestik, and Tyll (2017) revealed that loans with longer maturity are more likely to be collateralized than short-term loans and bank-borrower proximity can alleviate the incidence of collateral whereas bank concentration may increase collateral requirements, thus bank collateral increase SMEs increase profitability.

Abdesamed and Wahab (2014) examined the financing of SMEs and the factors that influence SMEs to apply for commercial bank loans. The study found that the business experience of business owners has no significant relation with the business's tendency to apply for a deposit money bank loan. However, the study found that the educational background of the business owner, business size, collateral, and loans with interest was negatively related to a business's tendency to apply for commercial bank loans.

Erdoğan (2015) examined firm-level determinants of the funding sources and structure of operational funds of Turkish SMEs. Erdoğan used a cross-sectional data set of 1,278 SMEs for the year 2013. Larger firms and businesses with international standard quality certification had a lower proportion of working capital from internal sources.

Methodology

This chapter outlines the methodology employed in conducting the study on the effects of financing on the growth of small and medium-scale enterprises (SMEs) in Kaduna Metropolis. It details the research design, population and sample, data collection methods, and the analytical techniques used. The study adopts a descriptive research design to examine the relationship between financing and the growth of SMEs. This design is appropriate as it allows for a comprehensive analysis of current practices and challenges related to SME financing. The target population for this study includes small and medium enterprises operating in the Kaduna Metropolis. According to the latest report from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), there are approximately 174 number of SMEs in Kaduna. A stratified random sampling technique was employed to ensure that various sectors within the SMEs (e.g., manufacturing, retail, services) were represented. The sample size was determined using a formula for estimating population proportions, resulting in n = 120 SMEs selected for the study.
$N= [z^2 * p(1-p)] / e^2 / 1 + [z^2 * p(1-p)] / e^2 * N]$ where

N = Total population of SMEs
Z = Z-score for 95% confidence level (1.96)
P = Proportion of SMEs expected to have access to financing (assumed or known)
e = Margin of error

Quantitative data were analyzed using both descriptive and inferential statistical methods to derive meaningful insights into the effects of financing on the growth of SMEs in Kaduna Metropolis. Descriptive statistics, such as means and standard deviations, were employed to summarize and describe the main features of the data collected, providing a comprehensive overview of the variables involved. To delve deeper into the relationships within the data, inferential statistics were used. Specifically, correlation analysis was conducted to measure the strength and direction of the relationship between financing and SME growth, indicating whether access to financial resources positively or negatively influenced business outcomes.

Additionally, regression analysis was performed to assess the impact of various financing sources on key performance metrics such as profitability and sales growth. This allowed for a clearer understanding of which types of financing contributed most significantly to business success. The data analysis was carried out using

SPSS (Statistical Package for the Social Sciences), a robust statistical software that facilitated precise and efficient computation, ensuring the reliability and accuracy of the analytical results.

Analysis and Findings

This chapter presents the analysis of data collected from SMEs in Kaduna Metropolis. The findings focus on the impact of financing on their growth, covering aspects such as profitability and sales growth. Both descriptive and inferential statistics were employed to interpret the data meaningfully.

The analysis began by summarizing the key characteristics of the SMEs surveyed. Tables and charts were used to illustrate their access to financing and growth indicators.

Table 1:

Characteristics of Respondents

Characteristic	Frequency (n = 120)	Percentage (%)
Sector		
Manufacturing	40	33.3
Retail	50	41.7
Services	30	25
Total	120	100

Source: SPSS output

The table below shows the distribution of respondents across three different sectors. The retail sector is most represented, having a frequency of 41.7% of the total sample. The manufacturing sector is represented by individuals and accounts for 33.3% of the respondents. The services sector has the least representation, with individuals composing 25% of the total sample.

Table 2:

Access to Financing by Source

Financing Source	Number of SMEs (n)	Percentage (%)
Bank Loans	45	37.5
Microfinance	35	29.2
Personal Savings	30	25
Other Sources	10	8.3

Source: SPSS output

The data describes the distribution of sources of finance among the SMEs. Bank loans are the most common source of finance among SMEs, 37.5% use bank loans as a source of finance. The second option is microfinance, 29.2% SMEs utilize this option. 25% of Personal savings are the major source for SMEs. Other sources of finance were the least option used among SMEs, only 8.3% of SMEs reported this option. This in turn shows a strong preference for more traditional means of finance-bank loans and microfinance-whereas other alternative sources, such as personal savings, are far less important.

Correlation Analysis

The correlation between financing and SME growth was tested to understand the relationship's strength and direction.

Table 3:

Correlation between Financing and Sales Growth

Variable	Correlation Coefficient (r)	p-value
Access to Finance	0.58	0.001

Source: SPSS output

Interpretation: The positive correlation coefficient ($r = 0.58$) indicates a moderate positive relationship between access to finance and sales growth, suggesting that SMEs with greater access to financial resources are more likely to experience higher sales growth. The p-value of 0.001 confirms the statistical significance of this relationship.

Regression Analysis

A regression analysis was conducted to quantify the effect of different financing sources on profitability and sales growth.

Table 4:

Regression Results for the Impact of Financing on Profitability

Independent Variable	Coefficient (β)	Standard Error	p-value
Bank Loans	0.45	0.08	0.002
Microfinance	0.32	0.09	0.01
Personal Savings	0.15	0.07	0.05

Source: SPSS output

The regression analysis done in this study has shown the differences in the impact of the various sources of finance on SME profitability in Kaduna Metropolis. Bank loans come up as having the most significant positive impact on profitability, presenting a coefficient β of 0.45, having a standard error of 0.08, and a statistically significant p-value of 0.002. These show that access to bank loans enhances SME profitability rather significantly. Microfinance has a positive influence on profitability, as shown by a coefficient of 0.32, with a standard error of 0.09 and a p-value of 0.01, hence one of the main determinants of SME growth. Personal savings are not as influential but still positively contribute to profitability, indicated by the coefficient β of 0.15, a standard error of 0.07, and a marginal p-value of 0.05. The results highlight that accessible and affordable financing acts as a very important means of SME growth and sustainability, particularly from formal institutions such as banks and microfinance organizations.

Challenges Faced by SMEs

Survey responses indicated various challenges in accessing financial support, which were summarized as follows:

Table 5:

Challenges in Accessing Finance

Challenge	Number of SMEs Reporting (%)
High-interest rates	70%
Collateral requirements	65%
Complex loan processes	55%
Limited loan amounts	45%

Source: SPSS output

The study identified some critical difficulties that SMEs in the Kaduna Metropolis experience in accessing finance. Indeed, the high interest rate was the major factor causing a rise in the price of credit and therefore has made loans unaffordable, as reported by 70% of the SMEs. This was closely followed by collateral requirements at 65%, as many of the small businesses lacked enough assets to meet the severe demands for collateral. In addition, 55% of the respondents reported complicated processes of loan applications, which are usually long and scary to SMEs; this factor deters SMEs from seeking formal financial support. Lastly, 45% of SMEs identified the limited loan amount as a constraint, given that the amount of money provided is usually less than what the business needs for sustainability or expansion. All these challenges put together show the difficulties SMEs face in accessing financial means, which is so vital for their development and competitiveness.

Findings

The aim of the study was to determine the effect of finance on the growth of SMEs in Kaduna Metropolis. This research investigated the sources of finance available to SMEs, the accessibility of those sources of finance, and their effect on business performance, mainly profitability and sales growth. A number of important findings were made from this study. The most used sources of finance for SMEs were bank loans, microfinance, and personal savings. In spite of all these, the use of formal bank loans was highly impeded by high collaterals and intricate application procedures. Access to finance therefore showed a fair positive correlation with SME growth; SMEs that were in better financial positions showed high profit margins and sales growth. Regression analysis further indicated that bank loans and microfinance institutions, in decreasing order of magnitude, contributed the most to profitability; while personal savings, useful in their own right, proved less decisive for business growth. SMEs face numerous obstacles while trying to get funds due to high interest rates and collateral requirements. Limited access to loans puts off firms from getting required amounts necessary for business expansion.

Conclusion

The findings of this study underscore the critical role that financial access plays in driving the growth of SMEs. It is evident that financing from banks and microfinance institutions has a significant positive effect on business performance, with better financial support correlating with higher profitability and sales growth. These results emphasize the importance of creating policies that facilitate easier access to affordable financing for SMEs, enabling them to expand their operations and contribute more effectively to economic development. Despite the positive effects of financial access, the study also highlights persistent challenges faced by SMEs, including high-interest rates, stringent collateral requirements, and complex loan procedures. These barriers continue to hinder SMEs from fully realizing their growth potential. Overcoming these challenges is essential to creating an environment where SMEs can access the funding they need to compete and thrive in the market.

Recommendation

To improve SME growth through enhanced access to finance, several recommendations are proposed. First, policy reforms should be implemented to reduce interest rates and simplify loan application processes, making financing more accessible to SMEs. Additionally, establishing training programs for SME owners to enhance their understanding of available financing options and improve their financial literacy is crucial. Another recommendation is the introduction of collateral-free loan models, such as credit guarantee schemes, which could help SMEs access funding without the traditional reliance on collateral. Lastly, increasing awareness about the various funding sources available to SMEs through awareness campaigns will ensure that business owners are better informed about their financing options.

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